

FDIC State Profile

Winter 2005

Hawaii

Hawaii job growth remained strong and wages increased modestly.

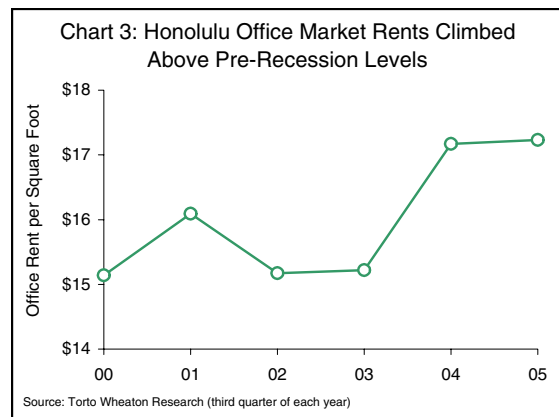
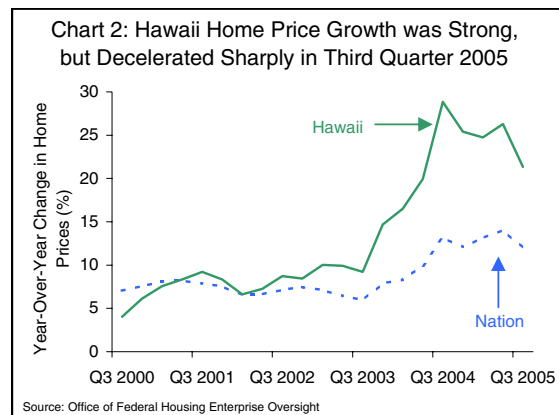
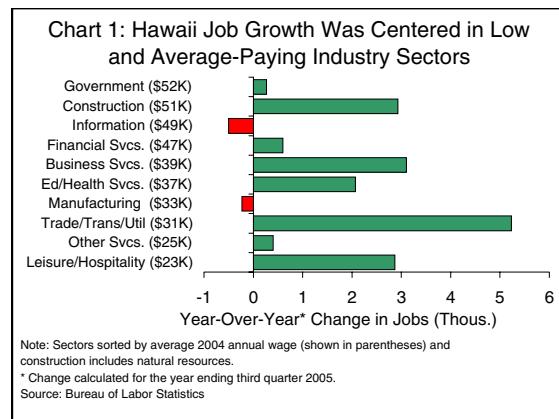
- Although year-over-year Hawaii job gains continued to accelerate in third quarter 2005 and ranked eighth nationwide, wage growth in the state was comparatively subdued. Recently released wage data for first quarter 2005 show that Hawaii wages increased 2.0 percent, below the national growth rate of 2.2 percent.
- The trade/transportation/utilities sectors, which reported annual wages slightly below the state average of \$35,200, led recent job growth (see Chart 1).
- Job gains in the relatively lower-paying leisure/hospitality sector constrained the state's overall wage levels.
- Nevertheless, forecasts indicate that Hawaii will maintain solid job growth into 2006.¹

Hawaii residential markets remained robust, but slowed mildly.

- Hawaii year-over-year home price appreciation slowed from 26.3 percent in second quarter to 21.3 percent in third quarter 2005, but remained the third highest pace of appreciation in the nation (see Chart 2).²
- DataQuick reported that the number of third quarter home and condo sales in **Honolulu** rose almost 2 percent year-over-year. During October, the volume of existing home and condo sales on neighbor islands slipped from year-earlier levels; however, median sales prices strengthened during the period.³

Honolulu commercial real estate improved in many sectors.⁴

- Honolulu office vacancy rates edged up slightly in third quarter 2005 to nearly 14 percent following the fourth consecutive quarter of negative net absorption. Rents, however, rose slightly (see Chart 3).



¹Forecast data from Moody's Economy.com.

²Based on data from the Office of Federal Housing Enterprise Oversight.

³Andrew Gomes, "Home Prices Drop on Three Islands," *Honolulu Advertiser*, November 9, 2005.

⁴Based on office and industrial property data from Torto Wheaton Research and hotel and apartment market data from Property & Portfolio Research.

State Profile

- Third quarter 2005 apartment vacancies in Honolulu declined to 5.5 percent and rents edged up due to constrained supply. This reflects, in part, a recent developer preference for building condominium units instead of new apartments.
- Driven by record visitor volumes during the third quarter, Honolulu hotel occupancies and revenue per available room rose to their highest levels in at least a decade.

Population growth slowed in Hawaii, and the number of branches contracted.

- While Hawaii's 2003 population growth placed it in the top ten fastest growing states; growth slowed in 2004 and placed in the bottom third of states. Hawaii ranked last nationwide in banking office expansion between June 2004 and June 2005; a net nine offices were closed in the state, mainly a result of in-state mergers.
- Most offices were closed in the **Hilo** and Honolulu markets. However, Hilo and Honolulu still reported significantly more people per banking office than metropolitan areas nationwide and other smaller counties in Hawaii (see Map 1).

Earnings performance weakened among some institutions.

- Despite improvement in overhead levels, median third quarter 2005 pre-tax return on assets (ROA) ratios dipped year-over-year to 1.80 percent among Hawaii-based insured institutions. As a result, the statewide pre-tax ROA slipped from second to tenth rank nationally, in part because of reduced noninterest income and lower securities and loan sale gains.
- Quarterly margins improved among most commercial banks in the state, in part because of recent shifts toward assets maturing or repricing within three months (see Chart 4). In addition, less rate-sensitive checking and savings accounts fund a significant share of commercial bank assets.
- Roughly 43 percent of institutions reported no provision expenses during third quarter 2005, down from 50 percent during the same period last year.

Problem loan ratios declined.

- Hawaii ranked fifth lowest among the states for past-due loans as of third quarter 2005, as 86 percent of the insured institutions reported delinquencies below 1 percent (see Chart 5).
- Strong economic fundamentals and solid loan growth, especially in construction, home equity line of credit, and commercial and industrial loan portfolios, may have helped ease delinquency levels.

- Residential mortgages and mortgage-backed securities continued to represent an important segment of balance sheets, increasing the relevance of housing market trends.
- Rising interest rates, higher energy prices, and a rash of bankruptcy filings early in the fourth quarter may lift delinquencies from their current low levels.

Map 1: Hilo and Honolulu Report Higher People Per Office Than Metropolitan Areas Nationwide

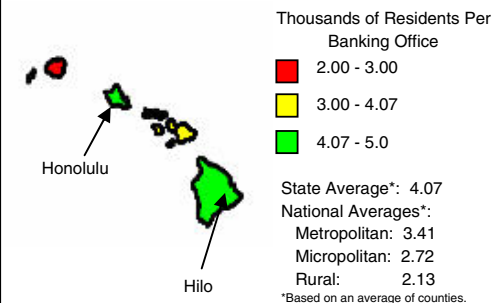
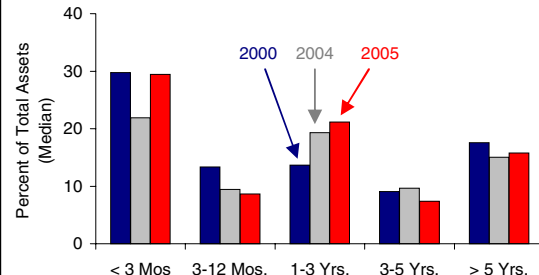
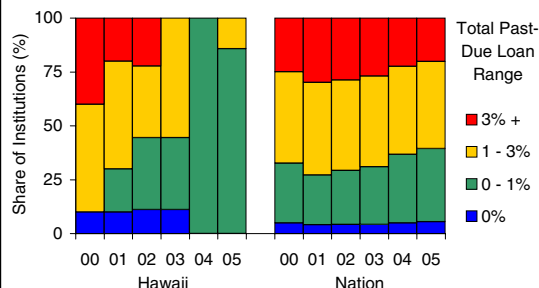


Chart 4: Hawaii Bank Assets Shifted Towards Shorter Repricing Intervals as Rates Increased



Note: Loans and securities are shown by reported repricing and/or maturity. Fed funds sold and interest-bearing deposits at other banks are assumed to reprice within 3 months.
Source: FDIC (Call Report filers only, September of each year)

Chart 5: Most Hawaii-Based Institutions Reported Low Delinquency Ratios



Note: Includes loans past due 30 days or more or on nonaccrual status.
Source: FDIC (September of each year)

Hawaii at a Glance

ECONOMIC INDICATORS (Change from year ago, unless noted)

Employment Growth Rates	Q3-05	Q2-05	Q3-04	2004	2003
Total Nonfarm (share of trailing four quarter employment in parentheses)	2.9%	2.9%	2.8%	2.6%	1.9%
Manufacturing (3%)	-1.5%	0.0%	3.3%	2.8%	-1.4%
Other (non-manufacturing) Goods-Producing (5%)	9.8%	10.7%	5.0%	4.9%	7.5%
Private Service-Producing (72%)	3.3%	3.3%	3.1%	2.9%	2.0%
Government (20%)	0.2%	-0.2%	1.2%	0.8%	1.0%
Unemployment Rate (% of labor force)	2.7	2.8	3.1	3.3	3.9

Other Indicators	Q3-05	Q2-05	Q3-04	2004	2003
Personal Income	N/A	8.2%	8.7%	8.0%	4.8%
Single-Family Home Permits	16.7%	7.2%	19.2%	12.8%	14.4%
Multifamily Building Permits	74.4%	-1.1%	415.9%	198.8%	-16.2%
Existing Home Sales	7.6%	7.6%	-11.9%	3.2%	22.4%
Home Price Index	21.3%	26.3%	28.8%	22.8%	11.0%
Nonbusiness Bankruptcy Filings per 1000 people (quarterly annualized level)	3.71	3.00	2.10	2.47	2.96

BANKING TRENDS

General Information	Q3-05	Q2-05	Q3-04	2004	2003
Institutions (#)	7	7	8	8	8
Total Assets (in millions)	35,675	35,090	33,262	34,175	31,928
New Institutions (# < 3 years)	0	0	0	0	0
Subchapter S Institutions	0	0	0	0	0

Asset Quality	Q3-05	Q2-05	Q3-04	2004	2003
Past-Due and Nonaccrual Loans / Total Loans (median %)	0.43	0.34	0.66	0.57	0.86
ALLL/Total Loans (median %)	1.51	1.60	1.63	1.63	1.86
ALLL/Noncurrent Loans (median multiple)	8.89	7.72	6.35	6.29	4.65
Net Loan Losses / Total Loans (median %)	-0.01	0.12	0.05	0.05	0.08

Capital / Earnings	Q3-05	Q2-05	Q3-04	2004	2003
Tier 1 Leverage (median %)	7.90	7.89	7.33	7.34	8.21
Return on Assets (median %)	1.10	1.18	1.28	1.29	1.48
Pretax Return on Assets (median %)	1.80	1.91	2.02	1.96	2.32
Net Interest Margin (median %)	4.41	4.29	4.37	4.24	4.50
Yield on Earning Assets (median %)	5.74	5.55	5.19	5.16	5.51
Cost of Funding Earning Assets (median %)	1.46	1.34	0.87	0.84	1.24
Provisions to Avg. Assets (median %)	0.02	0.00	0.01	0.01	0.04
Noninterest Income to Avg. Assets (median %)	0.86	0.76	0.71	0.77	1.01
Overhead to Avg. Assets (median %)	2.46	2.37	2.66	2.54	2.82

Liquidity / Sensitivity	Q3-05	Q2-05	Q3-04	2004	2003
Loans to Assets (median %)	56.6	54.1	56.1	56.4	62.7
Noncore Funding to Assets (median %)	29.1	26.9	25.8	26.5	22.1
Long-term Assets to Assets (median %, call filers)	20.6	21.0	18.9	19.9	27.6
Brokered Deposits (number of institutions)	3	4	3	3	3
Brokered Deposits to Assets (median % for those above)	0.2	0.4	0.1	0.1	0.0

Loan Concentrations (median % of Tier 1 Capital)	Q3-05	Q2-05	Q3-04	2004	2003
Commercial and Industrial	101.6	113.9	104.6	110.8	116.0
Commercial Real Estate	122.2	124.4	219.1	224.0	195.5
<i>Construction & Development</i>	30.8	25.1	34.0	36.6	26.0
<i>Multifamily Residential Real Estate</i>	13.7	13.4	10.1	9.5	9.4
<i>Nonresidential Real Estate</i>	77.8	85.9	118.4	118.7	116.9
Residential Real Estate	184.7	191.4	289.6	252.2	293.0
Consumer	19.8	19.4	31.7	33.6	31.0
Agriculture	0.3	0.4	0.8	0.7	0.9

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits (\$ millions)	Asset Distribution	Institutions
Honolulu, HI	10	19,617	< \$250 million	0 (0%)
			\$250 million to \$1 billion	2 (28.6%)
			\$1 billion to \$10 billion	3 (42.9%)
			> \$10 billion	2 (28.6%)